

Comprehensive Annual Financial Report

City of Portsmouth, Virginia School Board
A Component Unit of the City of Portsmouth, Virginia

For the Fiscal Year Ended June 30, 2006

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**City of Portsmouth, Virginia School Board
Component Unit of the City of Portsmouth, Virginia**

For the Fiscal Year Ended June 30, 2006

Prepared by the Department of Finance

**Meera Phaltankar, CPA
Director of Finance**

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**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2006**

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Department of Finance

P. O. Box 998

Portsmouth, Virginia 23705-0998
757-393-5072 / 757-393-8017 (fax)

October 19, 2006

School Board Members

And the Citizens of the City of Portsmouth, Virginia:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Portsmouth, Virginia School Board (PPS) for the fiscal year ended June 30, 2006. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of PPS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Governmental Activities and various funds of the School Board. All disclosures necessary to enable the reader to gain an understanding of the School Board's financial activities have been included.

For financial reporting PPS is a component unit of the City of Portsmouth, Virginia (the City), and, accordingly, the financial position and results of operations of PPS are also reflected in the financial statements included in the City's CAFR. An annual audit of the books of accounts, financial records and transactions of all the departments of the school division has been performed by Cherry, Bekaert & Holland, L.L.P. The auditors' reports, which include their unqualified opinion on the basic financial statements of the School Board, are included herein.

The CAFR is presented in four sections:

Introductory Section - includes the table of contents, an organizational chart, a list of the School Board Members and principal officials and this transmittal letter. This is an unaudited section.

Financial Section - includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information other than MD&A, Notes to Required Supplementary Information and Combining Statements for Internal Service Funds. MD&A is management's narrative overview and analysis of the financial statements, which should be read in conjunction with this letter of transmittal. The basic financial statements and the notes to the financial statements are audited.

Statistical Section – includes selected financial and demographic information. This section is updated to incorporate Governmental Accounting Standards Board Statement Number 44 issued May 2004 and effective after June 15, 2006 for economic condition reporting.

Compliance Section – includes the auditors' report on internal control over financial reporting and on compliance and other matters.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This Transmittal Letter is designed to complement MD&A and should be read in conjunction with it.

The School Board of the City of Portsmouth is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, finding and recommendations, if any, and auditors' reports, are included in the City of Portsmouth's Comprehensive Annual Financial report.

The Reporting Entity and Organization

Founded in 1752, the City of Portsmouth, Virginia is an urban core city situated at the center of Hampton Roads, the country's 33rd largest Metropolitan Statistical Area with over 1.5 million residents. The city encompasses 29.9 square miles of real property of which 54% is tax exempt due in large part to military installations.

The School Board's responsibility is the education of elementary and secondary students within the city. The nine-member School Board is elected by the Portsmouth citizens and serves a four-year term. The School Board is entrusted with the responsibility of hiring the school division's superintendent. The City Council approves the School Board's operating budget, levies the necessary taxes to finance their portion of the operations, and approves the borrowing of money and issuance of bonds when necessary. The City Council is prohibited from exercising any control over specific appropriations within the operating budget of the School Board. However, City Council may exercise control in total by major categories (e.g., Instruction; Administration, Attendance and Health; Pupil Transportation; Operations and Maintenance) as prescribed by the Code of Virginia, as amended.

Economic Condition and Outlook

According to 2005 statistics, Portsmouth has a population of 98,061 of which 50.5% is African-American, 45.8% is white and 3.7% other. Over the past ten years, the African-American population increased by 4.2% while the white population decreased by 5.4%. PPS serves 15,243 students in 2 preschool centers, 15 elementary schools (12 are Title I schools); 3 middle schools, 3 high schools, and 3 special centers. Based on 2004-05 Title I Eligibility Index prepared by the PPS Office of Research and Evaluation, 59% of our student population lives in poverty according to the free/reduced price lunch indicator. Almost 70% of our students are African-American, most of whom live in public housing or *Empowerment Zone* neighborhoods which have been so designated by high risk factors of unemployment, crime, vacant buildings, and low educational attainment. School wide, 15% of all students are identified as having special needs. Dropouts per 1000 students prior to 9th grade for Portsmouth was 12 compared to only 5 statewide (Portsmouth Comprehensive Prevention Plan 1999-2005); 81% of those dropouts are African-American. In 2005-06 school year, there was a total of 5,021 suspensions school wide.

School System

PPS operates 26 schools with an enrollment count of 15,243. There are approximately 2,400 employees.

Magnet Programs

The division offers six magnet programs:

Visual and Performing Arts: Emphasizes academic excellence, artistic development, intensive study of vocal and instrumental music, visual arts, and dance.

Mathematics, Science, and Aerospace Technology: Prepares students for occupations in physical and life sciences, biochemical technology, engineering, aeronautical research, and other related areas.

International Studies: An honors-based, liberal arts program preparing students to compete in the global community.

The Aerospace Place: Emphasizes mathematics, science, and technology with an aerospace theme promoting critical thinking and problem-solving skills.

Earth and Space: Promotes critical and analytical thinking, problem-solving, experimentation and independent learning by integrating mathematics, science and technology.

Montessori Education: Meets the individual needs of each student, develops the child's self-esteem and cultivates the child's natural desire to learn.

First College Program

The First College Program in Portsmouth is designed for qualified high school seniors who plan to attend a college or university after they graduate from high school. The program offers seniors an opportunity to earn 19 semester hours of college credit courses prior to graduation from high school. The courses offered in this program are part of the State Council of Higher Education for Virginia "Commonwealth College Course Collaborative," a collection of courses that public colleges and universities in the Commonwealth have agreed to accept as meeting part of the college's general education requirements.

Title I Parent Center

The Title I Parent Center is designed to develop a home-school support system to promote parent involvement with school personnel in the education of their children. The goal of the center is to enable parents to work more effectively with their children at home in an effort to reinforce what has been learned in school. Any parent or legal guardian of a child in a Title I school can use the Title I Parent Center. All materials, equipment, and information will be provided by the center free of charge.

Raise A Reader Program

Raise A Reader is a research-based program facilitated by the United Way that has received national acclaim because of its proven results in increasing the school readiness scores of participating children in the areas of print knowledge, reading comprehension, and book knowledge. Raise A Reader is a take-home book bag program that promotes daily book sharing between parents and their preschool age children. Children, through their classroom

and childcare settings, receive bright red book bags with four multi-cultural books on a weekly basis. These bags are rotated through the classroom, allowing each child to take home four new books each week.

Wett Academy

Goals to increase teacher knowledge and skills in integrating technology and science with special emphasis on wetlands. The goal is to pilot innovative uses of technology and establish PPS as a leading center for Science and Technology integration. The Program will train teachers in the integration of geospatial technology into the Sciences. (Grant funded)

Star

Supporting Teachers' Advancement through Robotics is an extension of a very successful project involving the Office of Naval Research and several school systems in other parts of the state. The focus is on the middle school using ROBOTICS. The goal is to develop student interest in mathematics, science, and engineering. The summer course is offered at William and Mary and is a graduate level course for two credits, and the tuition is paid by the STAR project. In addition, the teachers will receive a stipend to compensate for expenses incurred while attending the class. Students will learn to build a LEGO Mindstorm Robot. (Grant funded)

Starbase-Atlantis

Starbase-Atlantis is a fast-paced educational program designed for sixth graders. The five-day program offers a hands-on, math and science experience through fieldtrips to military bases to meet people who use these skills daily, through experiments and activities. The program also builds self esteem and includes elements of goal setting, drug abuse prevention and teamwork.

Starbase-Atlantis in Portsmouth Public Schools is a private venture because it is a partnership between the school system, community leaders and the United States Navy. By law, only two programs per state can be funded by the Department of Defense and there is a federally funded program in Norfolk. Portsmouth's Starbase-Atlantis program is the only privately funded program in the country.

Each year, STARBASE-ATLANTIS graduates over 500 students and will be expanding into a summer program this year.

Financial Information

Management is responsible for establishing and maintaining an internal control structure to prevent financial statements from being misstated. It is designed to provide reasonable, but not absolute, assurance to assure that this objective is met. Reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits require estimates and judgments by management. A component of internal control structure should increase the probability that material errors or fraud that occur are detected in a timely manner by employees in the normal course of performing their duties.

PPS management maintains budgetary controls to ensure compliance with the annual appropriated budget adopted by the School Board and City Council. The school division maintains an encumbrance accounting system as a method of accomplishing budgetary control. Outstanding encumbrances at the end of the fiscal year are generally reappropriated as a part of following fiscal year's operating budget. The School Board has adopted budgets for the following funds – General, Grants, Food Services, Capital Projects, Print Shop, and Risk Management. The School Board and City Council adopt the School Operating Budget by March and April, respectively, for the upcoming fiscal year.

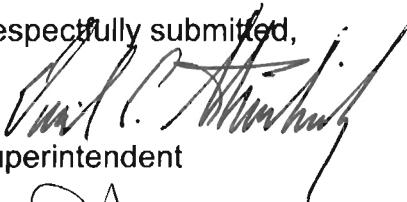
PPS pays the City a yearly fee to manage the School Board's risk management program. The School Board is "fully insured" for auto liability and for general liability through the Virginia School Board Association. For Workers Compensation, the School Board carries an excess policy, with a self-insured retention of \$350,000. Workers Compensation claims are handled by PMA, a third party claims administrator.

The treasurer is the custodian of pooled cash and temporary investments, funds held for student activity accounts and related investments except funds under Escrow agreement for the Energy Retrofit capital project. Our Financial Institution keeps a minimum required balance in general depository account and invests the excess in Institutional Money Market Fund. The investments are in compliance with state law requirements for money market funds for quality, maturity and diversification on investments. Interest earned is allocated among all the funds based on General Ledger cash balances at the end of the month.

Acknowledgements

We would like to express our sincere gratitude to the personnel in the Department of Finance who participated in the preparation of this report and to our independent auditors, Cherry, Bekaert & Holland, L.L.P. Appreciation is also extended to the School Board and the administration, whose continuing support is vital to the financial health of the school system.

Respectfully submitted,



Superintendent



Assistant Superintendent for Budget and Planning



Director of Finance

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA**
June 30, 2006

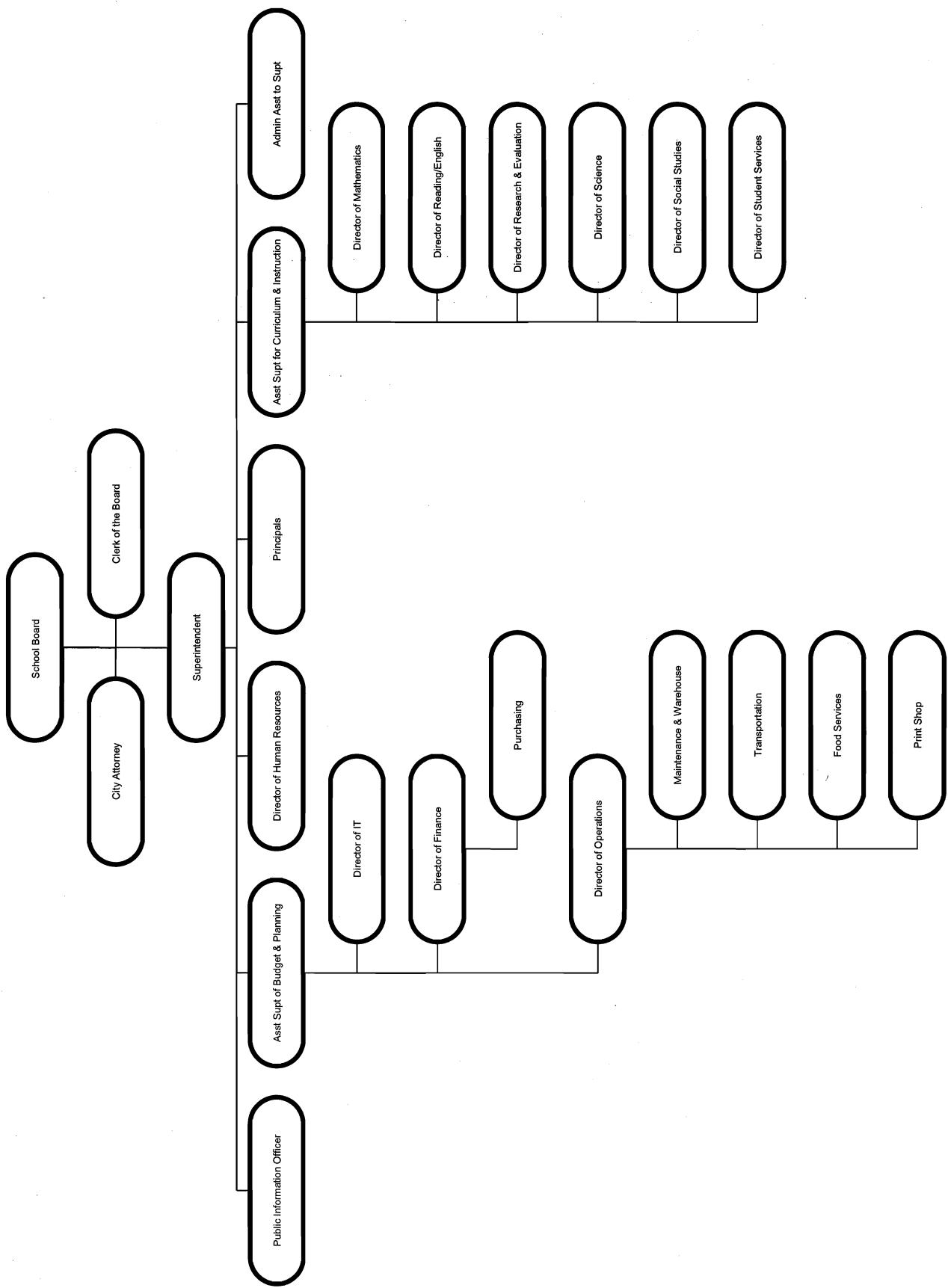
Members of the School Board and School Board Officials

School Board

Mr. Byron P. Kloeppe..... Chairman
Mrs. Jean Shackelford..... Vice Chairman
Mrs. Elizabeth N. "Betty" Hudgins
Mr. B. Keith Nance, Sr.
Ms. Sheri H. Bailey
Mrs. Linda A. Ridenour
Dr. Elizabeth Daniels
Mr. James E. Bridgeford
Dr. Mark M. Whitaker

Officials

Dr. David C. Stuckwisch Superintendent
Mr. Daniel Pendarvis Assistant Superintendent for Budget and Planning
Dr. Patricia H. Fisher Assistant Superintendent for Curriculum and Instruction
Mrs. Meera Phaltankar, CPA Director of Finance
Mrs. Kathy L. Chambliss Clerk of the School Board
Mrs. Laura Chandler Deputy Clerk of the School Board
Mr. James L. Williams City Treasurer



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FINANCIAL SECTION

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Independent Auditors' Report

Members of the School Board
City of Portsmouth, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board (School Board), a component unit of the City of Portsmouth, Virginia, as of and for the year ended June 30, 2006 which collectively comprise the School Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the School Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the City of Portsmouth, Virginia School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 11, the budgetary comparison schedules of the general fund and major annually budgeted special revenue funds, and the other required supplementary information on pages 35 through 39 listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Portsmouth, Virginia School Board's basic financial statements. The introductory section, other supplementary information and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bekant & Holland, A. L. P.

Virginia Beach, Virginia
October 19, 2006

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of the City of Portsmouth, Virginia School Board's (the School Board) annual financial report presents our discussion and analysis of the School Board's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights for Fiscal Year 2006

- The School Board's total net assets increased by \$1.9 million.
- Teachers and other personnel paid on the teacher salary schedule received an average 8% increase on new teacher scale. All other personnel received a 5% increase, effective July 1, 2005.
- Stephen H. Clarke Academy, an elementary school at 2801 Turnpike Road, Portsmouth, Virginia 23707 closed at the end of the school year. New Directions Alternative Program and SECEP (Regional Special Education Program) moved to that site from 10 Independence Street, Portsmouth, Virginia 23707 and Adult Education from 4300 George Washington Hwy, Portsmouth, Virginia 23702.
- Capital improvements completed during the year were – an addition at John Tyler, and an addition and renovation at Hodges Manor. An Energy Services Agreement was entered into by and between the School Board and Ameresco to perform certain energy conservation measures and installations. The funding for this project is a capital lease. Funds are held in an escrow agreement among CitiCapital Inc., the School Board and UMB Bank until used. The lease will be paid back as a result of guaranteed energy savings over the next 12 years.
- New school construction - Park View Elementary started during the year. This project is to demolish the existing building and mobile classrooms and build a new 80,000 square foot school.
- The City and School Board contracted with Tyler Technologies, Inc. for MUNIS as the new Financial and Human Resources system. The joint implementation began July 1, 2006.
- The First College Program in Portsmouth, a partnership between Portsmouth Public Schools and Tidewater Community College was initiated. Initial payment for design, planning and other expenses for the new facility were paid during the current fiscal year.
- The school district aggressively seeks competitive grant funds to further its mission. During fiscal year 2005-06, over \$2 million in additional competitive grant awards funded special programs and services for students and faculty, thereby bringing new resources that reached beyond the general operating budget.

Overview of the Financial Statements

This Comprehensive Annual Financial Report has four component sections: introductory, financial, statistical, and compliance. The financial section includes *management's discussion and analysis, the basic financial statements, required supplementary information, and other supplementary information*, an optional section that presents *combining statements* for internal service funds. Management's discussion and analysis serves as an introduction to the School Board's basic financial statements. These statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements.

There are two types of financial statement presentations, one for the School Board as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the School Board's overall financial status on an economic resource focus. The remaining statements are fund financial statements that focus on a current financial resource basis and individual parts of the School Board's operations in more detail than the government-wide financial statements.

Also included in the financial statements are *notes* that explain some of the information in the financial statements and provide more detailed data. Following the statements is a section of *required supplementary information* that further explains and supports the information in the financial statements.

The following chart summarizes the major features of the School Board's financial statements and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the School Board's Government-Wide and Fund Financial Statements:

| | | Fund Statements | | |
|--|--|--|---|--|
| Government-Wide Statements | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire school system | The activities of the school system that are not proprietary or fiduciary, such as General, Grants, Food Services, and Capital Projects Funds | Activities the school system operates similar to private businesses, such as the Print Shop Fund and Risk Management Fund | Instances in which the school system is the trustee or agent for someone else's resources, such as the Student Activities Fund |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and change in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and change in net assets • Statement of cash flows | Statement of fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Modified accrual basis of accounting |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | The school system's fund does not currently contain capital assets nor liabilities |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All receipts and disbursements during year, when cash is received or paid, rather than when an obligation is incurred |

Government-Wide Statements

The government-wide statements report information about the School Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School Board's assets and liabilities, while the statement of activities reports the School Board's revenues and expenses, regardless of when cash is received or paid. Both of the statements are prepared using the full accrual basis of accounting, which is similar to private-sector accounting.

The two government-wide statements report the School Board's net assets and how they have changed. Net assets, the difference between the School Board's assets and liabilities, is one way to measure the School Board's financial health or position.

- Over time, increases or decreases in the School Board's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School Board you need to consider additional non-financial factors such as changes in the student population and the condition of school properties.

The government-wide financial statements of the School Board include only governmental activities, as the School Board does not have business-type activities. Most of the School Board's basic services are included here, such as instruction, administration, attendance and health, pupil transportation, information technology, and operations and maintenance. State aid, Federal aid, and State and Federal grants finance most of these activities.

Fund Financial Statements

The fund statements focus on the major funds of the School Board, rather than the entity as a whole. These financial statements are presented on a modified accrual basis and are accounting devices that the School Board uses to keep track of specific sources of funding and spending for particular purposes.

The School Board has three types of funds:

- *Governmental funds* – Most of the School Board's basic activities are included in governmental funds, which focus on: (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near-term future to finance the School Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this additional information is provided in reconciliations after the governmental funds statements to explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the School Board charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The School Board uses two *internal service funds*. Internal service funds are used for goods or services provided by a central service department or agency to other departments, agencies or to other unrelated governmental units, usually on a cost reimbursement basis. The Print Shop Fund supplies printing and graphics services to the City of Portsmouth, outside entities and functional units in the School Board on a cost reimbursement basis. The Risk Management and Insurance Fund accounts for the payment of claims and legal fees, if necessary, on public liability claims arising from the operations of the School Board.

- *Fiduciary funds* – The School Board maintains an agency fund which is custodial in nature (assets equal liabilities) and does not involve measurements of the results of operations. The School Board's agency fund is the Student Activities Fund, which accounts for the student activity monies maintained on behalf of the students by the school principals at each school.

Financial Analysis of the School Board as a Whole

Following is a discussion of the major financial highlights of the School Board financial statements:

Net Assets

The School Board's net assets at the end of fiscal year 2006 were \$47 million, which were composed of \$6.0 million in unrestricted net assets, \$4.3 million in restricted for other purposes, and \$36.5 million invested in capital assets, net of related debt. Capital assets of the School Board which are secured by debt are reflected in the City of Portsmouth's financial statements. All capital assets that are School Board assets which do not secure debt are reported in the School Board's financial statements. The exception is capital lease obligations which are accounted for as a long-term debt obligation. The \$2.4 million decrease in net assets invested in capital assets, net of related debt, resulted from a \$3 million increase in construction in progress and a net \$3 million increase in depreciable assets, offset by a \$8.5 million capital lease. Please refer to the Financial Highlights for Fiscal Year 2006 section for the related construction projects.

Net Assets

(In thousands of dollars)

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|--|----------------------|----------------------|
| Current and other assets | \$ 29,415 | \$ 31,865 |
| Capital assets | <u>45,009</u> | <u>39,016</u> |
| Total assets | <u>74,424</u> | <u>70,881</u> |
| Long-term debt outstanding | 15,530 | 15,239 |
| Other liabilities | <u>12,044</u> | <u>10,672</u> |
| Total liabilities | <u>27,574</u> | <u>25,911</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 36,505 | 38,855 |
| Restricted | 4,355 | 1,358 |
| Unrestricted | <u>5,990</u> | <u>4,757</u> |
| Total net assets | <u>\$ 46,850</u> | <u>\$ 44,970</u> |

Changes in Net Assets

The breakdown of program revenue is as follows: 90.7% comes from operating grants and contributions, while 3.8% comes from capital grants and contributions; and the remaining program revenue is from charges for services. Total general revenues for fiscal year 2006 were \$97.4 million, consisting primarily of grants and contributions not restricted to specific programs. City appropriations make up approximately 38% of these revenues. The majority of the rest of the grants and contributions not restricted to specific programs are derived from State and Federal funds.

Changes in Net Assets

Year Ended June 30

(In thousands of dollars)

| | 2006 | 2005 |
|--|------------------|------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 2,777 | \$ 2,415 |
| Operating grants and contributions | 45,768 | 43,420 |
| Capital grants and contributions | 1,912 | 2,345 |
| General revenues: | | |
| Interest and investment earnings | 631 | 199 |
| Grants and contributions not restricted | 96,769 | 89,874 |
| Miscellaneous | 28 | 31 |
| Total revenues | <u>147,885</u> | <u>138,284</u> |
| Program expenses: | | |
| Administration | 3,387 | 3,087 |
| Instruction | 103,746 | 99,864 |
| Attendance and health services | 3,278 | 2,836 |
| Pupil transportation | 6,333 | 5,429 |
| Operations and maintenance | 16,498 | 15,653 |
| Information technology | 4,949 | 3,740 |
| Food services | 6,658 | 6,562 |
| Interest on long-term debt | 372 | 11 |
| Total program expenses | <u>145,221</u> | <u>137,182</u> |
| Excess of revenues over expenditures before special item | 2,664 | 1,102 |
| Special item | (784) | - |
| Change in net assets | <u>1,880</u> | <u>1,102</u> |
| Beginning net assets | 44,970 | 43,868 |
| Ending net assets | <u>\$ 46,850</u> | <u>\$ 44,970</u> |

Operating grants and contributions in the program revenues section, increased by \$2.3 million over the previous fiscal year. Most of this was related to increases of \$2.6 million in State revenue.

Grants and contributions not restricted, in the general revenues section, increased by \$6.9 million over the previous fiscal year. Increased economic activity resulted in an additional \$21 thousand of sales tax revenues compared to fiscal year 2005. The Governor's and State legislature initiatives resulted in a \$658 thousand increase in State revenues for this revenue category. The City Council increased its appropriation by \$5.3 million as a part of its support of Portsmouth Public Schools and to bring teacher salaries in parity with the region.

Instruction program expenses increased by \$4 million over the previous fiscal year. Almost all of this increase was a result of an increase in teacher salaries and related benefits.

When compared to the previous fiscal year, information technology program expenses increased by \$1.2 million. This increase was the direct result of a reallocation of the budget and increased funding to support instruction and improve technology in the schools.

As mentioned elsewhere in this discussion and analysis, the City entered into a capital lease arrangement at the end of fiscal year 2005. Accordingly, interest expense of approximately \$367,000 has been recorded for fiscal year 2006.

Financial Analysis of the School Board's Funds

The School Board's combined fund balance for the governmental funds was \$15.4 million for fiscal year ended June 30, 2006, or \$3.6 million higher than the previous year. The net change in the combined fund balance was primarily attributable to the following:

- The Construction fund cash balance increased due to The Energy Performance Capital Lease agreement of \$8,471,658. Current year expenditures for the related project were \$6,411,060.

General Fund Budgetary Highlights

Throughout fiscal year 2006, the School Board amended its total budget; however, the School Board delegates authority to the superintendent to move budget amounts between line items and organizational units to meet the changing needs of the School Board. The School Board's administration manages actual spending to the revenue received.

General Fund
Fiscal Year 2006
(In thousands of dollars)

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual (Budgetary Basis)</u> |
|-----------------------------|----------------------------|---------------------------|---|
| Revenues: | | | |
| Intergovernmental | \$ 123,747 | \$ 123,747 | \$ 123,536 |
| Other | 675 | 675 | 997 |
| Total | <u>124,422</u> | <u>124,422</u> | <u>124,533</u> |
| Expenditures and transfers: | | | |
| Expenditures | 121,557 | 120,128 | 117,940 |
| Transfers | 2,865 | 4,294 | 6,593 |
| Total | <u>124,422</u> | <u>124,422</u> | <u>124,533</u> |
| Change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the School Board had \$45 million in capital assets, net of depreciation. Most of the assets are in school buildings and land. Of the equipment, most of the capital assets are the school bus fleet and the maintenance vehicles.

Capital Assets

(Net of depreciation, in thousands of dollars)

| | <u>June 30, 2006</u> | <u>June 30, 2005</u> |
|----------------------------|----------------------|----------------------|
| Land | \$ 6,337 | \$ 6,499 |
| Buildings and improvements | 23,834 | 21,115 |
| Equipment | 7,021 | 6,578 |
| Construction in progress | 7,817 | 4,824 |
| Total | \$ 45,009 | \$ 39,016 |

During fiscal year 2006, the School Board placed in service approximately \$6 million in capital assets. Approximately \$3 million of the increase is comprised of new equipment and completed construction projects. New construction in progress on schools added another \$3 million.

Readers desiring more information on capital assets are referred to Note 3 in the basic financial statements.

Long-Term Debt

Long-term debt as of fiscal year-end was \$15.5 million, with \$12 million due in greater than one year and \$3.5 million due within one year.

The significant portions of long-term debt were \$4.2 million in vacation and sick leave liability, \$8.5 million in energy lease obligations, and \$2.8 million in claims payable related to potential workman's compensation claims.

Readers desiring more information on long-term debt are referred to Note 4 in the basic financial statements.

Economic Factors and Next Year's Budget

Subsequent to the adoption of the budget for fiscal year 2007, some issues have become relevant to the budgeted revenues. They are as follows:

- Retail sales have increased, which directly impacts sales tax collections. In the Commonwealth of Virginia, 1% of the percentage levied sales tax is returned to local school boards.
- In its fiscal year 2007 budget, which was effective July 1, 2006, the School Board planned a raise of 8% for teacher salaries and 5% for administrators and staff.
- The School Board has experienced a decreasing average daily membership (ADM-student population). State revenues are based on ADM. The new New Port housing development replacing the old Fairwood Homes section should bring additional students to the school system. Construction of new homes has started and should continue over the next two years.

- Plans to revert Cradock Career and Technical Center to the City will be carried out during fiscal year 2007.
- Joint implementation of new Financial and HR system with the City began in fiscal year 2007. The intent is to realize economies of scale by sharing the related expenses, rather than maintaining duplicate systems. The new Financial and HR-Payroll System completion is planned for July 1, 2007 and January 1, 2008, respectively.
- Construction has started for the new Park View Elementary School and renovations and additions to Victory Elementary School.

During the course of the ensuing year, School Board administration will monitor and manage spending in fiscal year 2007 in light of the aforementioned.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, parents, guardians, and creditors with a general overview of the School Board's finances and to demonstrate the School Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Portsmouth, Virginia, School Board, Superintendent's Office, 801 Crawford Street, Portsmouth, Virginia 23704.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit I

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES

June 30, 2006

ASSETS

| | |
|-----------------------------------|----------------------|
| Cash and temporary investments | \$ 12,104,927 |
| Cash with fiscal agent | 3,271,116 |
| Due from federal government | 11,583,249 |
| Due from Commonwealth of Virginia | 1,162,382 |
| Receivables, net | 160,399 |
| Inventory | 1,075,428 |
| Due from primary government | 56,917 |
| Capital assets not depreciated | 14,154,807 |
| Other capital assets- net | 30,854,619 |
| Total assets | \$ 74,423,844 |

LIABILITIES

| | |
|---------------------------|-------------------|
| Accounts payable | \$ 3,945,931 |
| Accrued payroll | 5,986,645 |
| Accrued payroll taxes | 1,645,112 |
| Accrued interest | 366,769 |
| Due to primary government | 99,044 |
| Long-term liabilities: | |
| Due within one year | 3,543,784 |
| Due in more than one year | 11,986,582 |
| Total liabilities | 27,573,867 |

NET ASSETS

| | |
|---|----------------------|
| Invested in capital assets- net of related debt | 36,504,731 |
| Restricted: | |
| Grant compliance | 1,083,452 |
| Capital projects | 3,271,116 |
| Unrestricted | 5,990,678 |
| Total net assets | 46,849,977 |
| Total liabilities and net assets | \$ 74,423,844 |

The accompanying notes are an integral part of the basic financial statements.

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia**

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

Year Ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues | | Capital Grants and Contributions | Net (Expenses) Revenues and Changes in Net Assets |
|--|-----------------------|-----------------------------|---|---|--|
| | | Charges for Services | Operating Grants and Contributions | | |
| Governmental activities: | | | | | |
| Administration | \$ 3,386,754 | \$ - | \$ 40,985,761 | - | \$ (3,386,754) |
| Instruction | 103,745,706 | 105,620 | - | - | (62,654,325) |
| Attendance and health services | 3,277,834 | 241,582 | - | - | (3,036,252) |
| Pupil transportation | 6,332,823 | 196,116 | - | - | (6,136,707) |
| Operations and maintenance | 16,498,396 | 149,383 | - | 1,912,088 | (14,436,925) |
| Information technology | 4,949,187 | - | - | - | (4,949,187) |
| Food service | 6,657,855 | 2,084,713 | 4,782,084 | - | 208,942 |
| Interest on long-term debt | 371,917 | - | - | - | (371,917) |
| Total Primary Government | \$ 145,220,472 | \$ 2,777,414 | \$ 45,767,845 | \$ 1,912,088 | \$ (94,763,125) |
| General Revenues | | | | | |
| Unrestricted grants and contributions | | | | | 96,763,950 |
| Investment earnings | | | | | 630,641 |
| Miscellaneous | | | | | 27,774 |
| Special item | | | | | (784,133) |
| Total general revenues and special item | | | | | 96,643,232 |
| Change in net assets | | | | | 1,880,107 |
| Net assets - beginning of year | | | | | 44,969,870 |
| Net assets - end of year | | | | | \$ 46,849,977 |

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit III
Page 1 of 2

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

| | General | School | Food Services | School | Total |
|--|----------------------|----------------------|---------------------|---------------------|-----------------------|
| | | Grants | | Construction | Governmental Funds |
| ASSETS | | | | | |
| Cash and temporary investments | \$ 2,202,939 | \$ 475,486 | \$ 2,177,353 | \$ 5,051,703 | \$ 9,907,481 |
| Cash with fiscal agent | - | - | - | 3,271,116 | 3,271,116 |
| Receivables | 45,000 | 102,063 | - | - | 147,063 |
| Due from City of Portsmouth | - | 56,917 | - | - | 56,917 |
| Due from federal government | - | 10,473,809 | 1,109,440 | - | 11,583,249 |
| Due from Commonwealth of Virginia | 1,027,961 | 134,421 | - | - | 1,162,382 |
| Due from other funds | 10,960,060 | 542,739 | - | 110,887 | 11,613,686 |
| Inventory | 935,048 | - | 38,237 | - | 973,285 |
| Total assets | \$ 15,171,008 | \$ 11,785,435 | \$ 3,325,030 | \$ 8,433,706 | \$ 38,715,179 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 2,041,314 | \$ 547,224 | \$ 52,729 | \$ 1,293,706 | \$ 3,934,973 |
| Accrued payroll | 5,986,645 | - | - | - | 5,986,645 |
| Accrued payroll taxes | 1,645,112 | - | - | - | 1,645,112 |
| Due to City of Portsmouth | 99,044 | - | - | - | 99,044 |
| Due to other funds | 673,159 | 10,053,915 | 914,933 | - | 11,642,007 |
| Total liabilities | 10,445,274 | 10,601,139 | 967,662 | 1,293,706 | 23,307,781 |
| FUND BALANCES | | | | | |
| Reserved: | | | | | |
| Encumbrances | 3,790,686 | - | - | 2,189,224 | 5,979,910 |
| Inventories | 935,048 | - | 38,237 | - | 973,285 |
| Grant compliance | - | 1,083,452 | - | - | 1,083,452 |
| Capital projects | - | - | - | 3,271,116 | 3,271,116 |
| Unreserved: | | | | | |
| Designated for grant compliance | - | 100,844 | - | - | 100,844 |
| Designated for capital projects | - | - | - | 1,679,660 | 1,679,660 |
| Undesignated | - | - | 2,319,131 | - | 2,319,131 |
| Total fund balances | 4,725,734 | 1,184,296 | 2,357,368 | 7,140,000 | 15,407,398 |
| Total liabilities and fund balances | \$ 15,171,008 | \$ 11,785,435 | \$ 3,325,030 | \$ 8,433,706 | \$ 38,715,179 |

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit III, continued
Page 2 of 2

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

**Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets**

Total fund balances - governmental funds \$ 15,407,398

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 44,964,841

Internal service funds are used by management to charge the costs of certain activities, such as printing and insurance to individual funds. The assets and liabilities of the internal internal service funds are included in governmental activities in the statement of net assets. (462,362)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

| | |
|--------------------------|-----------------|
| Long-term liabilities | \$ (12,693,131) |
| Accrued interest payable | (366,769) |
| | <hr/> |
| | \$ (13,059,900) |

Total net assets - governmental activities \$ 46,849,977

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit IV
Page 1 of 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS**

Year Ended June 30, 2006

| | General | School Grants | School Food Services | School Construction | Total Governmental Funds |
|--|---------------------|--------------------------|-------------------------------------|--------------------------------|---|
| Revenues | | | | | |
| Intergovernmental | | | | | |
| From City of Portsmouth | \$ 36,670,336 | \$ 269,108 | \$ - | \$ - | \$ 36,939,444 |
| From Commonwealth of Virginia | 84,314,851 | 2,775,732 | 110,721 | 1,803,188 | 89,004,492 |
| From federal government | 670,970 | 12,912,742 | 4,671,363 | - | 18,255,075 |
| Total intergovernmental | 121,656,157 | 15,957,582 | 4,782,084 | 1,803,188 | 144,199,011 |
| Charges for services | - | - | 1,425,495 | - | 1,425,495 |
| Interest | 214,920 | - | 94,810 | 248,074 | 557,804 |
| Miscellaneous | 852,824 | 249,872 | 659,219 | - | 1,761,915 |
| Total revenues | 122,723,901 | 16,207,454 | 6,961,608 | 2,051,262 | 147,944,225 |
| Expenditures | | | | | |
| Current: | | | | | |
| Education: | | | | | |
| Administration | 3,325,432 | 41,988 | - | - | 3,367,420 |
| Instruction | 86,513,219 | 14,852,296 | - | - | 101,365,515 |
| Attendance and health services | 2,132,304 | 1,137,993 | - | - | 3,270,297 |
| Pupil transportation | 5,884,990 | 14,223 | - | - | 5,899,213 |
| Information technology | 4,858,538 | - | - | - | 4,858,538 |
| Operation and maintenance | 16,358,654 | 15,840 | - | - | 16,374,494 |
| Total education | 119,073,137 | 16,062,340 | - | - | 135,135,477 |
| Food services | - | - | 6,579,699 | - | 6,579,699 |
| Capital outlay | 1,362,175 | 835,839 | 303,517 | 7,351,606 | 9,853,137 |
| Total expenditures | 120,435,312 | 16,898,179 | 6,883,216 | 7,351,606 | 151,568,313 |
| Excess (deficiency) of revenues over expenditures | 2,288,589 | (690,725) | 78,392 | (5,300,344) | (3,624,088) |
| Other financing sources (uses) | | | | | |
| Transfers in | - | 676,247 | - | 2,821,165 | 3,497,412 |
| Transfers out | (3,497,412) | - | - | - | (3,497,412) |
| Total other financing sources (uses) | (3,497,412) | 676,247 | - | 2,821,165 | - |
| Net change in fund balances | (1,208,823) | (14,478) | 78,392 | (2,479,179) | (3,624,088) |
| Change in reserve for inventory | 7,345 | - | 6,236 | - | 13,581 |
| Fund balance at beginning of year, a | 5,927,212 | 1,198,774 | 2,272,740 | 9,619,179 | 19,017,905 |
| Fund balances - end of year | \$ 4,725,734 | \$ 1,184,296 | \$ 2,357,368 | \$ 7,140,000 | \$ 15,407,398 |

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit IV, continued
Page 2 of 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

Year Ended June 30, 2006

**Reconciliation of the Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds to the Statement of Activities**

| | |
|---|-----------------------|
| Net change in fund balances - total governmental funds | \$ (3,610,507) |
|---|-----------------------|

Amounts reported for governmental activities in the statement of net assets
are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities the cost of these
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlay exceeded depreciation.

| | |
|--|------------------------------|
| General government capital outlay expenditures | 9,833,599 |
| Capital outlay not capitalized | (505,006) |
| Disposals of assets | - |
| Disposals of assets | (784,133) |
| Depreciation of general government assets | <u>(2,428,120)</u> 6,116,340 |

Some expenses, such as compensated absences and net
pension obligation, reported in the Statement of Activities do
not require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds.

| | |
|---|----------------------------|
| Change in compensated absences and net pension obligation | \$ (22,158) |
| Change in accrued interest payable | <u>(366,769)</u> (388,927) |

Internal service funds are used by management to charge the cost
of certain activities, such as printing and insurance to individual funds.
The net revenue of certain internal service funds is reported with
governmental activities.

(236,799)

| | |
|--|---------------------|
| Change in net assets of governmental activities | \$ 1,880,107 |
|--|---------------------|

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit V

STATEMENT OF NET ASSETS (DEFICITS) - PROPRIETARY FUNDS

June 30, 2006

| ASSETS | Governmental Activities- Internal Service Funds |
|--|--|
| Current assets | |
| Cash and temporary investments | \$ 2,197,446 |
| Due from other funds | 28,321 |
| Due from other agencies | 13,336 |
| Inventories | 102,143 |
| Total current assets | <u>2,341,246</u> |
| Noncurrent assets | |
| Machinery and equipment | 871,266 |
| Less - accumulated depreciation | (826,681) |
| Total noncurrent assets | <u>44,585</u> |
| Total assets | <u>\$ 2,385,831</u> |
| LIABILITIES AND NET ASSETS | |
| Current liabilities | |
| Claims payable - current portion | \$ 1,422,277 |
| Accounts payable | 10,958 |
| Capital lease obligations - current | 33,038 |
| Total current liabilities | <u>1,466,273</u> |
| Noncurrent liabilities | |
| Claims payable - net of current portion | 1,337,045 |
| Compensated absences | 44,875 |
| Total noncurrent liabilities | <u>1,381,920</u> |
| Total liabilities | <u>2,848,193</u> |
| Net assets (deficits) | |
| Invested in capital assets - net of related debt | 11,547 |
| Unrestricted | (473,909) |
| Total net assets (deficits) | <u>(462,362)</u> |
| Total liabilities and net assets (deficits) | <u>\$ 2,385,831</u> |

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit VI

***STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
 NET ASSETS (DEFICITS) - PROPRIETARY FUNDS***

Year Ended June 30, 2006

| | Governmental Activities- Internal Service Funds |
|--|--|
| Operating Revenues | |
| Charges for services | \$ 1,855,676 |
| Total operating revenues | <u>1,855,676</u> |
| Operating Expenses | |
| Personnel services | 322,580 |
| Insurance claims and expenses | 1,390,549 |
| Contractual services | 157,251 |
| Repairs and maintenance | 8,166 |
| Other supplies and expenses | 158,777 |
| Depreciation and amortization | 122,841 |
| Total operating expenses | <u>2,160,164</u> |
| Operating income (loss) | <u>(304,488)</u> |
| Nonoperating Revenues (Expenses) | |
| Interest income | 72,837 |
| Interest expense | (5,148) |
| Total nonoperating revenues (expenses) | <u>67,689</u> |
| Change in net assets (deficits) | <u>(236,799)</u> |
| Total net assets (deficits) - beginning of year | <u>(225,563)</u> |
| Total net assets (deficits) - end of year | <u>\$ (462,362)</u> |

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit VII

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2006

| | Governmental Activities- | Internal Service Funds |
|---|-------------------------------------|-----------------------------------|
| Cash flows from operating activities | | |
| Received from customers and users | \$ 1,930,320 | |
| Payments to suppliers for goods and services | (1,345,371) | |
| Payments to employees | (322,239) | |
| Net cash provided by operating activities | <u>262,710</u> | |
| Cash flows from capital and related financing activities | | |
| Principal paid on capital debt | (128,100) | |
| Interest paid on capital debt | (5,148) | |
| Net cash used in capital and related financing activities | <u>(133,248)</u> | |
| Cash flows from investing activities | | |
| Interest received | 72,837 | |
| Net cash provided by investing activities | <u>72,837</u> | |
| Net change in cash and temporary investments | 202,299 | |
| Cash and temporary investments - beginning of year | 1,995,147 | |
| Cash and temporary investments - end of year | <u>\$ 2,197,446</u> | |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | |
| Operating income (loss) | \$ (304,488) | |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 122,841 | |
| Change in compensated absences | 341 | |
| Change in assets and liabilities: | | |
| Due from other governments | 34,276 | |
| Due from other funds | 2,501 | |
| Inventories | 4,981 | |
| Vouchers and accounts payable | 5,121 | |
| Claims payable | 397,137 | |
| Total adjustments | <u>567,198</u> | |
| Net cash provided by operating activities | <u>\$ 262,710</u> | |

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit VIII

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND

June 30, 2006

| ASSETS | <u>Agency Fund</u> |
|--------------------------------|---------------------------|
| Cash and temporary investments | <u>\$ 603,860</u> |
| LIABILITIES | |
| Due to students | <u>\$ 603,860</u> |

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CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit IX

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements presented for the City of Portsmouth, Virginia School Board (School Board) are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The School Board's significant accounting and reporting policies are described below.

The Financial Reporting Entity

The School Board is considered a component unit of the City of Portsmouth (City). The School Board has no component units. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: (a) the primary government is accountable for the component unit, and (b) the primary government is able to impose its will upon the component unit (or there is a possibility that the component unit may provide specific financial benefits or impose specific financial burdens on the primary government). The information included in these basic financial statements will also be included in the City of Portsmouth's basic financial statements because of the significance of the School Board's financial relationship with the City.

The School Board determines educational policy and employs a Superintendent of Schools to administer the School Board's policies. The members of the School Board are elected by the citizens of the City of Portsmouth.

The School Board is responsible for elementary and secondary education for the City of Portsmouth.

Basis of Presentation

The School Board's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the School Board as a whole, except for fiduciary funds. These statements are reflected on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets as well as long-term liabilities.

The statement of net assets presents the financial condition of the governmental type activities of the School Board at year-end. The School Board does not have any business-type activities. The government-wide statement of activities reflects both the gross and net cost per functional category that is otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues (charges for services, operating and capital grants, and contributions). The program revenues must be directly associated with the function or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items such as grants not specific to a program, not properly included among program revenues, are reported as general revenues. The School Board does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements: The accounts of the School Board are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The fund statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

Governmental Funds

Governmental Funds are those through which most governmental functions of the School Board are financed. The acquisition, use and balances of the School Board's expendable financial resources and the related liabilities are accounted for through governmental funds. Governmental fund types use the "flow of current financial resources" measurement focus. This means that generally only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination. The School Board reports the following major governmental funds:

General Fund - The General Fund (School Operating Fund) is the general operating fund of the School Board. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are primarily from other governments (intergovernmental revenues).

School Grants Fund - The School Grants Fund is a special revenue fund which accounts for federal, state and other grants associated with school programs.

School Food Services Fund - The School Food Services Fund is a special revenue fund which accounts for the operations of the cafeterias operating in each school.

School Construction Fund - The School Construction Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the School Board reports the following fund types:

Internal Service Funds - The Internal Service Funds account for the financing of services provided by one fund to other funds of the School Board. The Risk Management and Insurance Fund accounts for the payment of claims and legal fees, if necessary, on public liability claims arising from the operations of the School Board. The Print Shop Fund accounts for print shop services provided to other departments of the School Board or other governments on a cost reimbursement basis. Operating revenues include charges for services. Operating expenses include cost of services. The internal service funds are included in governmental activities for government-wide reporting purposes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The excess revenue or expenses for the funds are allocated to the appropriate functional activity. In accordance with GASB Statement No. 20, the School Board has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the School Board in trustee capacity or as an agent for individuals, private organizations, and other governments. The fiduciary fund of the School Board is the Student Activities Fund. This agency fund accounts for the student activity monies maintained on behalf of the students by the school principals at each school. Fiduciary funds are not included in the government-wide financial statements.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The School Board generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The government-wide statement of net assets and statement of activities and all proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities and financial statements of the proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally revenues collected within 45 days of year-end are recognized. For grants, revenue is recognized when all eligibility requirements have been met. Expenditures, other than interest and principal on long-term debt which is recorded when due, are recorded when the fund liability is incurred, if measurable.

Receivables

Receivables are presented net of an allowance for doubtful accounts of \$25,304 in the School Grants Fund.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of consumable materials and supplies held for future consumption. Under the purchase method of accounting, the cost is recorded as an expenditure in the governmental funds at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reservation which indicates the inventories do not constitute "available spendable resources."

Capital Assets

Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the School Board's capitalization threshold of \$5,000 is met.

Depreciation is recorded on general capital assets on a government-wide basis using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|-------------|
| Buildings and Improvements | 20-50 years |
| Equipment | 5-30 years |

To the extent the School Board's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis using the straight-line method and the following estimated useful life:

| | |
|-----------|-----------|
| Equipment | 5-8 years |
|-----------|-----------|

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at estimated fair market value on the date received. The School Board has no infrastructure assets.

Under Virginia law, certain property maintained by the School Board is subject to tenancy in common with the City, if the City has incurred a financial obligation for the property, which is payable over more than one fiscal year. The School Board and the City have agreed that such property, having a net book value of \$61,339,053, will be carried on the City's financial statements until the outstanding debt is repaid.

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Compensated Absences

School Board employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation pay earned and, upon retirement, termination or death, may be compensated as salary related payments for certain amounts at their then current rates of pay. After five consecutive years of service, employees, upon retirement, termination or death may be compensated at a daily rate of \$20 for each unused sick leave day earned.

Fund Balances/Net Assets

Fund balances have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

Fund Balances - Reserved - indicates that a portion of fund equity which has been legally segregated for specific purposes or does not represent available expendable resources.

Fund Balances - Unreserved, Undesignated - represents the remainder of the School Board's equity in governmental fund-type balances.

Net Assets in government-wide financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute.

Statement of Cash Flows

For purposes of the statement of cash flows, investments with original maturities of three months or less from the date of purchase are grouped into cash and temporary investments.

Use of Estimates

Management of the School Board has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes any differences between these estimates and actual results should not materially affect the School Board's reporting of its financial position.

2. DEPOSITS AND INVESTMENTS

The School Board maintains individual segregated bank accounts for the School Grants, School Food Services and Print Shop funds. The General, School Construction and Risk Management funds share a pooled cash account.

Deposits

At year end, the carrying value of the School Board's deposits with banks and savings institutions was \$(267,073) and the bank balance was \$1,829,913. The carrying balance is negative due to timing differences; checks and deposits did not clear the bank before funds were swept into the Evergreen Fund at year end. The bank balances of the School Board's deposits were covered by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. If any member financial institution fails, the entire collateral becomes available to satisfy claims of the School Board. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks) of the pool. Therefore, these deposits are considered collateralized and as a result are considered insured.

Investments

State statutes authorize the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime" quality commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The City Treasurer's investment policies apply to the School Board's deposits and investments. The Treasurer's investment policy addresses custodial credit risk, interest rate risk, concentration of risk, and credit risk, in which instruments are to be diversified and maturities timed according to anticipated needs in order to minimize any exposure.

The School Board has \$12,372,000 invested in the Evergreen Money Market fund and \$3,271,116 invested in Fidelity Treasury Fund as of June 30, 2006. These funds had a credit rating of AAAm by Standard & Poor's.

The School Board has \$3,271,116 in the School Construction Fund that are held with a fiscal agent. These funds are restricted for capital projects.

3. CAPITAL ASSETS – NET

A summary of changes in capital assets for the year ended June 30, 2006, follows:

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|-------------------------|----------------------|---------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,499,465 | \$ - | \$ 161,820 | \$ 6,337,645 |
| Construction in progress | <u>4,824,219</u> | <u>7,351,616</u> | <u>4,358,673</u> | <u>7,817,162</u> |
| Total capital assets - not being depreciated | <u>11,323,684</u> | <u>7,351,616</u> | <u>4,520,493</u> | <u>14,154,807</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 52,227,056 | 4,359,673 | 6,142,094 | 50,444,635 |
| Equipment | <u>15,186,189</u> | <u>1,975,977</u> | <u>817,753</u> | <u>16,344,413</u> |
| Total capital assets being depreciated | <u>67,413,245</u> | <u>6,335,650</u> | <u>6,959,847</u> | <u>66,789,048</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 31,112,513 | 1,018,161 | 5,519,781 | 26,610,893 |
| Equipment | <u>8,608,489</u> | <u>1,532,800</u> | <u>817,753</u> | <u>9,323,536</u> |
| Total accumulated depreciation | <u>39,721,002</u> | <u>2,550,961</u> | <u>6,337,534</u> | <u>35,934,429</u> |
| Total capital assets being depreciated - net | <u>27,692,243</u> | <u>3,784,689</u> | <u>622,313</u> | <u>30,854,619</u> |
| Governmental activities capital assets - net | <u>\$ 39,015,927</u> | <u>\$ 11,136,305</u> | <u>\$ 5,142,806</u> | <u>\$ 45,009,426</u> |

Depreciation expense was charged to functions as follows:

| Governmental Activities: | |
|---|---------------------|
| Instruction | \$ 1,861,754 |
| Administration, attendance and health services | 17,328 |
| Pupil transportation | 425,127 |
| Operations and maintenance | 107,717 |
| Information technology | 83,662 |
| Food services | <u>55,373</u> |
| Total governmental activities depreciation expense | <u>\$ 2,550,961</u> |

Contracts the School Board is committed to at June 30, 2006 are approximately \$7,817,162.

Included in capital assets is equipment which is leased under capital leases in the amount of \$871,268, net of accumulated amortization of \$826,682. Amortization expense for 2006 of \$122,841 is included in depreciation expense. Included in Construction in progress is \$6,411,060 which is also financed by a capital lease.

4. LONG-TERM LIABILITIES

Long-term liabilities are normally paid from the General Fund.

| | Net pension obligation | Capital leases | Accrued vacation pay | Accrued sick leave | Claims payable | Total |
|---|---------------------------------------|---------------------------|-------------------------------------|-----------------------------------|---------------------------|----------------------|
| Amounts payable at beginning of year, as restated | \$ 112,951 | \$ 8,632,796 | \$ 2,016,947 | \$ 2,113,951 | \$ 2,362,185 | \$ 15,238,830 |
| Increase in liabilities | 8,471 | - | 1,165,799 | 556,653 | 1,390,549 | 3,121,472 |
| Decrease in liabilities | (8,310) | (128,100) | (1,141,786) | (558,328) | (993,412) | (2,829,936) |
| Amounts payable at end of year | <u>\$ 113,112</u> | <u>\$ 8,504,696</u> | <u>\$ 2,040,960</u> | <u>\$ 2,112,276</u> | <u>\$ 2,759,322</u> | <u>\$ 15,530,366</u> |
| Amounts due within one year | \$ - | \$ 421,507 | \$ 1,140,000 | \$ 560,000 | \$ 1,422,277 | \$ 3,543,784 |

Long-term liabilities applicable to the School Board's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets.

The future payments by year of the net pension obligation, accrued vacation pay and sick leave, and claims payable are not determinable.

Leases

A summary of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2006, is as follows:

| <u>Fiscal Year</u> | |
|-------------------------------------|---------------------|
| 2007 | \$ 811,361 |
| 2008 | 801,389 |
| 2009 | 825,430 |
| 2010 | 850,193 |
| 2011 | 875,699 |
| 2012-2016 | 4,788,681 |
| 2017-2021 | <u>2,086,095</u> |
| Total minimum payments | <u>11,038,848</u> |
| Less - amount representing interest | <u>(2,534,152)</u> |
| Present value of principal | <u>\$ 8,504,696</u> |

5. DEFINED BENEFIT PENSION PLANS

Virginia Retirement System (VRS)

Plan Description

The School Board contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of credited service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at age 50 with 30 years of service for participating employers, payable monthly for life, in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the VRS at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

VRS plan members are required, by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution may be assumed by the employer. This 5% member contribution has been assumed by the School Board. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Board's contribution rate for non-professional employees for the fiscal years ended 2006, 2005, and 2004, was 12%, 11%, and 8%, respectively, of annual covered payroll.

Additionally, required contributions to the VRS' state-wide teacher pool for the current year and each of the two preceding years were as follows:

| Year Ended June 30, | Required Contribution | Actual Contribution | Percentage Contributed |
|--------------------------------|----------------------------------|--------------------------------|-----------------------------------|
| 2006 | \$ 8,230,067 | \$ 8,230,067 | 100% |
| 2005 | \$ 7,308,906 | \$ 7,308,906 | 100% |
| 2004 | \$ 5,542,073 | \$ 5,542,073 | 100% |

Annual Pension Cost

The School Board's annual pension cost and net pension obligation to VRS for the current year were as follows:

| | |
|--|-------------------|
| Annual required contribution | \$ 902,876 |
| Interest on net pension obligation | 8,471 |
| Adjustment to annual required contribution | <u>(8,310)</u> |
| | |
| Annual pension cost | 903,037 |
| Contributions made | <u>902,876</u> |
| | |
| Increase in net pension obligation | 161 |
| | |
| Net pension obligation beginning of year | <u>112,951</u> |
| | |
| Net pension obligation end of year | <u>\$ 113,112</u> |

The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.25% to 6.10% per year and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of nineteen years.

Trend Information for the School Board

| Fiscal year ended | Annual pension cost (APC) | Percentage of APC contributed | Net pension obligation |
|--------------------------|----------------------------------|--------------------------------------|-------------------------------|
| June 30, 2006 | \$ 903,037 | 100% | \$ 113,112 |
| June 30, 2005 | \$ 958,146 | 100% | \$ 112,951 |
| June 30, 2004 | \$ 664,786 | 100% | \$ 113,026 |

6. CONTINGENT LIABILITIES

Risk Management

The School Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School Board is self-insured for a portion of these risks. The self-insurance coverage for workers' compensation is \$250,000 per occurrence. Commercial insurance is purchased to cover any liability above these self-insured levels for specific losses. General liability is fully insured. This insurance coverage is substantially the same as in prior fiscal years. There were no settlements within the past three years which exceeded coverage.

The Risk Management and Insurance Fund services all claims of risk of loss to which the School Board is exposed, including workers' compensation, automobile and general liability. All funds of the School Board participate in the Risk Management and Insurance Fund.

A loss analysis was conducted by Mercer Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2006, was determined to be \$2,759,322 (undiscounted) and recorded in the fund and the government-wide statements, accordingly. This was in addition to \$74,361 of claims reported but not paid as of June 30, 2006. The deficit of \$960,853 at June 30, 2006, is expected to be eliminated by revenues in subsequent fiscal years.

Changes in the fund's claim liability amount in fiscal years 2006 and 2005 were:

| | 2006 | 2005 |
|-------------------------------------|---------------------|---------------------|
| Claims payable at beginning of year | \$ 2,362,185 | \$ 2,070,510 |
| Claims and changes in estimates | 1,390,549 | 1,085,279 |
| Claims payments | <u>(993,412)</u> | <u>(793,604)</u> |
| Claims payable at end of year | <u>\$ 2,759,322</u> | <u>\$ 2,362,185</u> |

Litigation

The School Board is involved in lawsuits arising in the ordinary course of operations. It is the opinion of the School Board's management, based on the advice of the School Board's attorney, that any losses incurred as a result of claims existing as of June 30, 2006 will not be material to the financial statements.

Grants

The School Board received grant funds, principally from the State and Federal governments, for instructional and various other programs. Expenditures from these grants are subject to audit by the grantor, and the School Board is contingently liable to refund amounts received in excess of allowable expenditures. Based on prior experience, School Board management believes such refunds, if any, will not be significant.

Health Insurance Benefits for Certain Retired Employees

The School Board approved a Retiree Health Insurance Premium Contribution Plan in June 2001. Effective for persons who retire on or after July 2001, eligible retiring employees will receive \$2,500 annually to offset the cost of health insurance premiums in retirement. A retired employee shall be eligible to participate if the employee has a minimum of 25 years of service, has reached the minimum age of 55 and was considered a regularly scheduled employee. The School Board shall contribute to a retiree's insurance plan for a maximum of 10 years. Benefits will cease when the retiree reaches 65 or otherwise becomes eligible for social security benefits. As of June 30, 2006, 84 employees were eligible for these benefits. The School Board accounts for these benefits as they are incurred. The expenditures for the year ended June 30, 2006, were approximately \$203,000. The School Board is authorized to establish and amend benefit provisions and obligations to contribute.

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances at June 30, 2006, which are considered short-term in nature, are as follows:

| | Due from other funds | Due to other funds |
|---------------------------|---------------------------------|-------------------------------|
| General Fund | \$ 10,960,060 | \$ 673,159 |
| School Grants Fund | 542,739 | 10,053,915 |
| School Food Services Fund | - | 914,933 |
| School Construction Fund | 110,887 | - |
| Internal Service Funds | <u>28,321</u> | <u>-</u> |
| | <u>\$ 11,642,007</u> | <u>\$ 11,642,007</u> |

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2006, consisted of the following:

| | Transfers from other funds | Transfers to other funds |
|--------------------------|---------------------------------------|-------------------------------------|
| General Fund | \$ - | \$ 3,497,412 |
| School Grants Fund | 676,247 | - |
| School Construction Fund | <u>2,821,165</u> | <u>-</u> |
| | <u>\$ 3,497,412</u> | <u>\$ 3,497,412</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8. ACCUMULATED DEFICIT AND NEGATIVE NET ASSETS

At June 30, 2006, an accumulated deficit or negative net assets position existed in the following fund:

| | |
|-----------------|-----------|
| Risk Management | \$960,853 |
|-----------------|-----------|

The deficit is expected to be eliminated by revenues in subsequent fiscal years.

9. SPECIAL ITEM

In October 2005, the School Board voted to close Hunt-Mapp Middle School. As a result, the schools' real property was transferred to the City of Portsmouth, Virginia, during the year ended June 30, 2006 at a net book value of \$784,133. In June 2006, the School Board voted to transfer the Cradock Career & Technical Center to the City of Portsmouth, Virginia, during the year ended June 30, 2006 at a net book value of \$0.

10. PRIOR PERIOD ADJUSTMENT

Restricted cash for the year ended June 30, 2005, was understated by \$8,471,658 in the School Construction Fund in the Fund Financial Statements and in the Government-wide Financial Statements. Long-term liabilities were understated in the Government-wide Financial Statements. Fund balance was understated in the Fund Financial Statements for the School Construction Fund for the year ended June 30, 2005. These items were understated due to a misunderstanding of some provisions of a capital lease agreement. The prior period adjustment had no effect on net assets in the Government-wide Financial Statements. The School Board has made a prior period adjustment to recognize the proceeds from the capital lease in the fund financial statements in the appropriate period at June 30, 2005.

| | School Construction Fund |
|--------------------------------------|--------------------------------|
| Ending fund balance prior year | \$ 1,147,521 |
| Capital lease proceeds | <u>8,471,658</u> |
| Beginning fund balance (as restated) | <u>\$ 9,619,179</u> |

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**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit X

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

| | Original Budget | Budget as Amended | Actual (Budgetary Basis) | Variance with Amended Budget Positive (Negative) |
|--|--------------------|--------------------|--------------------------|---|
| Revenues | | | | |
| Intergovernmental: | | | | |
| From City of Portsmouth | \$36,670,336 | \$36,670,336 | \$36,670,336 | \$ - |
| From Commonwealth of Virginia | 86,416,348 | 86,416,348 | 86,194,591 | (221,757) |
| From federal government | 660,000 | 660,000 | 670,970 | 10,970 |
| Interest | - | 55,000 | 241,915 | 186,915 |
| Miscellaneous | 675,000 | 620,000 | 754,913 | 134,913 |
| Total revenues | 124,421,684 | 124,421,684 | 124,532,725 | 111,041 |
| Expenditures | | | | |
| Education: | | | | |
| Administration | 3,675,525 | 3,660,567 | 3,211,691 | 448,876 |
| Instruction | 85,188,527 | 84,577,278 | 85,447,437 | (870,159) |
| Attendance and health services | 2,242,389 | 2,239,589 | 2,226,955 | 12,634 |
| Pupil transportation | 5,203,916 | 5,136,366 | 4,896,917 | 239,449 |
| Operations and maintenance | 17,068,258 | 16,457,200 | 14,650,379 | 1,806,821 |
| Information technology | 5,786,643 | 4,873,758 | 4,471,345 | 402,413 |
| Total education | 119,165,258 | 116,944,758 | 114,904,724 | 2,040,034 |
| Capital outlay | 2,392,049 | 3,182,919 | 3,035,037 | 147,882 |
| Total expenditures | 121,557,307 | 120,127,677 | 117,939,761 | 2,187,916 |
| Excess of revenues over expenditures | 2,864,377 | 4,294,007 | 6,592,964 | 2,298,957 |
| Other financing uses | | | | |
| Transfers out | (2,864,377) | (4,294,007) | (6,592,964) | (2,298,957) |
| Excess of revenues over expenditures and other financing uses | \$ - | \$ - | \$ - | \$ - |
| Fund balance at beginning of year | | | 5,927,212 | |
| Cancellation of unexpended prior year encumbrances | | | 99,044 | |
| Decrease in reserve for encumbrances | | | (1,070,593) | |
| Increase in reserve for inventory | | | 7,345 | |
| Net accruals and adjustments | | | (237,274) | |
| Fund balance at end of year | | | \$ 4,725,734 | |

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit XI

SCHOOL GRANTS FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

| | Original Budget | Budget as Amended | Actual (Budgetary Basis) | Variance with Amended Budget |
|--|------------------------|--------------------------|---------------------------------|-------------------------------------|
| | | | | Positive (Negative) |
| Revenues | | | | |
| Intergovernmental: | | | | |
| From City of Portsmouth | \$ 220,626 | \$ 220,626 | \$ 284,501 | \$ 63,875 |
| From Commonwealth of Virginia | 3,182,060 | 3,182,060 | 2,544,631 | (637,429) |
| From federal government | 14,798,062 | 14,798,062 | 6,209,581 | (8,588,481) |
| Miscellaneous | 175,000 | 175,000 | 191,065 | 16,065 |
| Total revenues | 18,375,748 | 18,375,748 | 9,229,778 | (9,145,970) |
| Expenditures | | | | |
| Education: | | | | |
| Administration | 2,292,989 | 2,292,989 | 1,209,471 | 1,083,518 |
| Instruction | 15,668,761 | 15,668,761 | 15,093,731 | 575,030 |
| Operations and maintenance | 382,165 | 382,165 | 30,063 | 352,102 |
| Total education | 18,343,915 | 18,343,915 | 16,333,265 | 2,010,650 |
| Capital outlay | 764,330 | 764,330 | 714,756 | 49,574 |
| Total expenditures | 19,108,245 | 19,108,245 | 17,048,021 | 2,060,224 |
| Excess of revenues over expenditures | (732,497) | (732,497) | (7,818,243) | (7,085,746) |
| Other financing uses | | | | |
| Transfers in | 732,497 | 732,497 | 676,247 | (56,250) |
| Excess of revenues over expenditures and other financing uses | \$ - | \$ - | \$(7,141,996) | \$(7,141,996) |
| Fund balance at beginning of year | | | 1,198,774 | |
| Net accruals and adjustments | | | <u>7,127,518</u> | |
| Fund balance at end of year | | | <u>\$ 1,184,296</u> | |

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit XII

SCHOOL FOOD SERVICES FUND
BUDGETARY COMPARISON

Year Ended June 30, 2006

| | Original Budget | Budget as Amended | Actual (Budgetary Basis) | Variance with Amended Budget Positive (Negative) |
|--|--------------------|----------------------|--------------------------------|---|
| Revenues | | | | |
| Intergovernmental: | | | | |
| From Commonwealth of Virginia | \$ 95,000 | \$ 95,000 | \$ 110,721 | \$ 15,721 |
| From federal government | 4,150,000 | 4,150,000 | 4,330,095 | 180,095 |
| Donated commodities from the federal government | 320,000 | 320,000 | 341,268 | 21,268 |
| Charges for services | 1,550,000 | 1,550,000 | 1,425,495 | (124,505) |
| Interest | - | - | 94,810 | 94,810 |
| Miscellaneous | 275,000 | 275,000 | 659,219 | 384,219 |
| Total revenues | 6,390,000 | 6,390,000 | 6,961,608 | 571,608 |
| Expenditures | | | | |
| Food services | 6,390,000 | 6,390,000 | 6,579,699 | (189,699) |
| Capital outlay | - | - | 303,517 | (303,517) |
| Total expenditures | 6,390,000 | 6,390,000 | 6,883,216 | (493,216) |
| Excess of revenues over expenditures | \$ - | \$ - | \$ 78,392 | \$ 78,392 |
| Fund balance at beginning of year | | | 2,272,740 | |
| Increase in reserve for inventory | | | 6,236 | |
| Fund balance at end of year | | | \$ 2,357,368 | |

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN (UNAUDITED)

Exhibit XII

Year Ended June 30, 2006

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Overfunded (Unfunded) Actuarial Accrued Liability (UAAL) | UAAL as a Percentage of Covered Payroll | |
|--------------------------------|---------------------------------|--|---|--|--------------------|
| | | | | Funded Ratio | Covered Payroll |
| June 30, 2003 | \$ 21,105,442 | \$ 21,879,580 | \$ (774,138) | 96.46% | \$ 8,428,134 |
| June 30, 2004 | \$ 21,286,570 | \$ 23,502,940 | \$ (2,216,370) | 90.57% | \$ 8,588,058 |
| June 30, 2005 | \$ 21,058,942 | \$ 24,171,379 | \$ (3,112,437) | 87.12% | \$ 7,759,979 |

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit XIV

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

1. BUDGETS AND BUDGETARY ACCOUNTING

The budget data reflected in the financial statements was created by the School Board using the procedures which follow:

- 1) The School Board submits to the City Council of the City a proposed operating budget for the General and Special Revenue Funds for the forthcoming fiscal year by April 1. The legal level of budgetary control rests at the fund level for the General and Special Revenue Funds. Management control is exercised over the budgets at the budgetary line item level.
- 2) The budgets are legally enacted through passage of an ordinance by the City Council 45 days prior to the end of the current fiscal year.
- 3) The School Board is authorized to make transfers between budgetary line items; however, revisions that alter the total expenditures of the total budget must be approved by the City Council.
- 4) The General and Special Revenue Funds have legally adopted annual budgets. The General and Special Revenue Fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States, except for the recognition of encumbrances as expenditures. Budgets related to the School Construction Fund are adopted on a project basis.
- 5) The School Board employs encumbrance accounting under which obligations in the form of purchase orders, contracts and other commitments for the expenditure of funds are reported as reservations of fund balances, since they do not constitute expenditures or liabilities. Appropriations with outstanding commitments or encumbrances are carried into the following year. According to the City of Portsmouth, Virginia Code, unexpended, unencumbered appropriations lapse at the end of the year.

SUPPLEMENTARY INFORMATION

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CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Schedule 1

COMBINING STATEMENT OF NET ASSETS (DEFICITS) - INTERNAL SERVICE FUNDS

June 30, 2006

| | Print Shop | Risk Management | Total |
|--|-----------------------|----------------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and temporary investments | \$ 398,977 | \$ 1,798,469 | \$ 2,197,446 |
| Due from other funds | 28,321 | - | 28,321 |
| Due from other agencies | 13,336 | - | 13,336 |
| Inventories | 102,143 | - | 102,143 |
| Total current assets | 542,777 | 1,798,469 | 2,341,246 |
| Capital assets: | | | |
| Machinery and equipment | 871,266 | - | 871,266 |
| Less - accumulated depreciation | (826,681) | - | (826,681) |
| Total capital assets | 44,585 | - | 44,585 |
| Total assets | \$ 587,362 | \$ 1,798,469 | \$ 2,385,831 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Claims payable - current portion | \$ - | \$ 1,422,277 | \$ 1,422,277 |
| Accounts payable | 10,958 | - | 10,958 |
| Capital lease obligations - current portion | 33,038 | - | 33,038 |
| Total current liabilities | 43,996 | 1,422,277 | 1,466,273 |
| Noncurrent liabilities | | | |
| Claims payable - less current portion | - | 1,337,045 | 1,337,045 |
| Compensated absences | 44,875 | - | 44,875 |
| Total long-term liabilities | 44,875 | 1,337,045 | 1,381,920 |
| Total liabilities | 88,871 | 2,759,322 | 2,848,193 |
| NET ASSETS (DEFICITS) | | | |
| Invested in capital assets - net of related debt | 11,547 | - | 11,547 |
| Unrestricted | 486,944 | (960,853) | (473,909) |
| Total net assets (deficits) | 498,491 | (960,853) | (462,362) |
| Total liabilities and net assets (deficits) | \$ 587,362 | \$ 1,798,469 | \$ 2,385,831 |

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth,

Schedule 2

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
 FUND NET ASSETS (DEFICITS) - INTERNAL SERVICE FUNDS**

Year Ended June 30, 2006

| | Print Shop | Risk Management | Total |
|--|-----------------------|----------------------------|---------------------|
| Operating revenues | | | |
| Charges for services | \$ 899,020 | \$ 956,656 | \$ 1,855,676 |
| Total operating revenues | 899,020 | 956,656 | 1,855,676 |
| Operating expenses | | | |
| Personnel services | 322,580 | - | 322,580 |
| Insurance claims and expenses | - | 1,390,549 | 1,390,549 |
| Contractual services | 157,251 | - | 157,251 |
| Repairs and maintenance | 8,166 | - | 8,166 |
| Other supplies and expenses | 158,777 | - | 158,777 |
| Depreciation and amortization | 122,841 | - | 122,841 |
| Total operating expenses | 769,615 | 1,390,549 | 2,160,164 |
| Operating income (loss) | 129,405 | (433,893) | (304,488) |
| Nonoperating revenue (expense) | | | |
| Interest income | - | 72,837 | 72,837 |
| Interest expense | (5,148) | - | (5,148) |
| Total nonoperating revenue (expense) | (5,148) | 72,837 | 67,689 |
| Change in net assets (deficits) | 124,257 | (361,056) | (236,799) |
| Net assets (deficits) - beginning of year | 374,234 | (599,797) | (225,563) |
| Net assets (deficits) - end of year | \$ 498,491 | \$ (960,853) | \$ (462,362) |

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Schedule 3

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS

Year Ended June 30, 2006

| | Print Shop | Risk Management | Total |
|--|-----------------------|----------------------------|---------------------|
| Cash flows from operating activities | | | |
| Received from customers and users | \$ 973,664 | \$ 956,656 | \$ 1,930,320 |
| Payments to suppliers for goods and services | (351,959) | (993,412) | (1,345,371) |
| Payments to employees | (322,239) | - | (322,239) |
| Net cash provided by (used in) operating activities | 299,466 | (36,756) | 262,710 |
| Cash flows from capital and related financing activities | | | |
| Principal paid on capital debt | (128,100) | - | (128,100) |
| Interest paid on capital debt | (5,148) | - | (5,148) |
| Net cash used in capital and related financing activities | (133,248) | - | (133,248) |
| Cash flows from investing activities | | | |
| Interest received (paid) | - | 72,837 | 72,837 |
| Net cash provided by investing activities | - | 72,837 | 72,837 |
| Net change in cash and temporary investments | 166,218 | 36,081 | 202,299 |
| Cash and temporary investments - beginning of year | 232,759 | 1,762,388 | 1,995,147 |
| Cash and temporary investments - end of year | \$ 398,977 | \$ 1,798,469 | \$ 2,197,446 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | | |
| Operating income (loss) | \$ 129,405 | \$ (433,893) | \$ (304,488) |
| Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 122,841 | - | 122,841 |
| Change in compensated absences | 341 | - | 341 |
| Change in assets and liabilities: | | | |
| Due from other governments | 34,276 | - | 34,276 |
| Due from other funds | 2,501 | - | 2,501 |
| Inventories | 4,981 | - | 4,981 |
| Vouchers and accounts payable | 5,121 | - | 5,121 |
| Claims payable | - | 397,137 | 397,137 |
| Total adjustments | 170,061 | 397,137 | 567,198 |
| Net cash provided by (used in) operating activities | \$ 299,466 | \$ (36,756) | \$ 262,710 |

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Schedule 4

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - STUDENT ACTIVITIES

June 30, 2006

| ASSETS | Balance | | Balance | |
|--------------------------------|---------------------|------------------|-------------------|----------------------|
| | July 1, 2005 | Additions | Deductions | June 30, 2006 |
| Cash and temporary investments | \$ 657,372 | \$ \$ 1,891,688 | \$ 1,945,200 | \$ 603,860 |
| LIABILITIES | | | | |
| Due to students | \$ 657,372 | \$ \$ 1,891,688 | \$ 1,945,200 | \$ 603,860 |

STATISTICAL SECTION

(Unaudited)

Table 1

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Net Assets by Component (unaudited)
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Primary government, governmental activities | | | | | |
| Invested in capital assets- net of | | | | | |
| related debt | \$ 36,504,731 | \$ 38,854,790 | \$ 37,412,004 | \$ 34,173,737 | \$ 33,554,689 |
| Restricted | 4,354,568 | 1,357,929 | 1,545,299 | | |
| Unrestricted | 5,990,678 | 4,757,151 | 4,910,804 | 8,854,713 | 5,668,611 |
| Total primary government net assets | <u>\$ 46,849,977</u> | <u>\$ 44,969,870</u> | <u>\$ 43,868,107</u> | <u>\$ 43,028,450</u> | <u>\$ 39,223,300</u> |

The School Board has no business-type activities.

Note: Information for years prior to 2002 is not available.

Table 2

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Changes in Net Assets (unaudited)
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---------------------|---------------------|-----------------------|---------------------|---------------------|
| Primary Government Expenses | | | | | |
| Governmental activities: | | | | | |
| Administration | \$ 3,386,754 | \$ 3,086,711 | \$ 3,416,935 | \$ 2,656,805 | \$ 2,827,948 |
| Instruction | 103,745,706 | 99,863,747 | 94,328,782 | 89,488,370 | 89,485,404 |
| Attendance and health services | 3,277,834 | 2,836,441 | 3,023,549 | 3,024,078 | 2,702,121 |
| Pupil transportation | 6,332,823 | 5,429,111 | 5,332,389 | 4,586,066 | 4,200,016 |
| Operations and maintenance | 16,498,396 | 15,652,607 | 15,047,717 | 15,782,128 | 14,159,569 |
| Information technology | 4,949,187 | 3,740,252 | 970,603 | | |
| Food service | 6,657,855 | 6,561,790 | 6,328,371 | 6,534,184 | 6,625,435 |
| Interest on long-term debt | 371,917 | 11,383 | 17,314 | 33,600 | 30,777 |
| Total expenses | <u>145,220,472</u> | <u>137,182,042</u> | <u>128,465,660</u> | <u>122,105,231</u> | <u>120,031,270</u> |
| Program Revenues | | | | | |
| Governmental activities: | | | | | |
| Charges for services | 2,777,414 | 2,414,995 | 2,795,732 | 2,906,650 | 2,350,445 |
| Operating grants and contributions | 45,767,845 | 43,419,115 | 37,082,937 | 39,891,583 | 39,421,499 |
| Capital grants and contributions | 1,912,088 | 2,345,261 | 4,627,153 | 4,354,378 | 10,176,902 |
| Total program revenues | <u>50,457,347</u> | <u>48,179,371</u> | <u>44,505,822</u> | <u>47,152,611</u> | <u>51,948,846</u> |
| Primary government net expense | (94,763,125) | (89,002,671) | (83,959,838) | (74,952,620) | (68,082,424) |
| General Revenues and Other Changes in Net Assets | | | | | |
| Governmental activities: | | | | | |
| Unrestricted grants and contributions | 96,768,950 | 89,873,769 | 82,412,727 | 78,615,389 | 75,857,334 |
| Investment earnings | 630,641 | 199,291 | 90,611 | 112,636 | 181,064 |
| Miscellaneous | 27,774 | 31,374 | 14,637 | 29,745 | 10,605 |
| Special Item | (784,133) | - | (116,789) | - | - |
| Total primary government | <u>96,643,232</u> | <u>90,104,434</u> | <u>82,401,186</u> | <u>78,757,770</u> | <u>76,049,003</u> |
| Change in Net Assets | | | | | |
| Total primary government | \$ 1,880,107 | \$ 1,101,763 | \$ (1,558,652) | \$ 3,805,150 | \$ 7,966,579 |

Note: Information for years prior to 2002 is not available.

Table 3

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Fund Balances, Governmental Funds (unaudited)
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|-------------------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| General Fund | | | | | |
| Reserved | \$ 4,725,734 | \$ 5,927,212 | \$ 6,235,088 | \$ 8,639,022 | \$ 7,128,870 |
| Total General Fund | <u>\$ 4,725,734</u> | <u>\$ 5,927,212</u> | <u>\$ 6,235,088</u> | <u>\$ 8,639,022</u> | <u>\$ 7,128,870</u> |
| All Other Governmental Funds | | | | | |
| Reserved | \$ 6,582,029 | \$ 2,519,174 | \$ 5,316,353 | \$ 68,388 | \$ 90,781 |
| Unreserved, reported in: | | | | | |
| Special Revenue | 2,419,975 | 2,081,584 | 1,715,781 | 2,355,468 | 2,409,253 |
| Capital Projects | 1,679,660 | 18,277 | (2,266,708) | 2,022,253 | 411,373 |
| Total all other governmental funds | <u>\$ 10,681,664</u> | <u>\$ 4,619,035</u> | <u>\$ 4,765,426</u> | <u>\$ 4,446,109</u> | <u>\$ 2,911,407</u> |

Note: Five years is presented to be consistent with the availability of data presented in Tables 1 and 2.

Table 4

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Changes in Fund Balances, Governmental Funds
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|--|-----------------------|---------------------|-----------------------|---------------------|---------------------|
| Revenues | | | | | |
| Intergovernmental | | | | | |
| Federal grants | \$ 18,255,075 | \$ 17,608,987 | \$ 16,115,547 | \$ 15,919,634 | \$ 14,534,710 |
| Federal donated commodities | - | - | - | 385,996 | 394,177 |
| State grants and other | 89,004,492 | 86,360,715 | 78,750,543 | 78,346,433 | 78,617,044 |
| City of Portsmouth | 36,939,444 | 31,543,601 | 28,802,407 | 28,166,130 | 31,563,811 |
| Local | | | | | |
| Charges for services | 1,425,495 | 1,388,465 | 1,383,724 | 1,534,025 | 1,429,548 |
| Interest | 557,804 | 174,968 | 74,954 | 107,714 | 179,058 |
| Miscellaneous | 1,761,915 | 1,393,791 | 1,658,997 | 1,400,470 | 1,344,498 |
| Total Revenues | 147,944,225 | 138,470,527 | 126,786,172 | 125,860,402 | 128,062,846 |
| Expenditures | | | | | |
| Current | | | | | |
| Education | | | | | |
| Administration | 3,367,420 | 3,077,453 | 3,065,160 | 2,641,677 | 2,795,487 |
| Instruction | 101,365,515 | 95,286,713 | 91,141,849 | 86,297,662 | 84,817,579 |
| Attendance and health services | 3,270,297 | 2,838,577 | 3,014,440 | 3,026,725 | 2,678,998 |
| Pupil transportation | 5,899,213 | 5,017,220 | 4,826,015 | 4,258,871 | 3,744,564 |
| Information technology | 4,858,538 | 3,680,937 | 921,747 | - | - |
| Operation and maintenance | 16,374,494 | 15,554,177 | 15,002,639 | 11,639,729 | 11,567,097 |
| Food services | 6,579,699 | 6,500,155 | 6,278,051 | 6,462,611 | 6,717,219 |
| Debt service | | | | | |
| Principal | - | - | - | - | - |
| Interest | - | - | - | 10,643 | 247,616 |
| Capital outlay | 9,853,137 | 6,955,168 | 7,063,486 | 8,102,289 | 14,095,068 |
| Total Expenditures | 151,568,313 | 138,910,400 | 131,313,387 | 122,440,207 | 126,663,628 |
| Excess (deficiency) of revenues over expenditures | (3,624,088) | (439,873) | (4,527,215) | 3,420,195 | 1,399,218 |
| Other financing sources (uses) | | | | | |
| Transfers in | 3,497,412 | 774,354 | 867,642 | 739,399 | 855,411 |
| Transfers out | (3,497,412) | (774,354) | (867,642) | (739,399.00) | (855,411) |
| Total Other Financing Sources (Uses) | - | - | - | - | - |
| Total Net Change in Fund Balances | \$ (3,624,088) | \$ (439,873) | \$ (4,527,215) | \$ 3,420,195 | \$ 1,399,218 |
| Ratio of debt service expenditures to noncapital expenditures | 0.00% | 0.00% | 0.00% | 0.01% | 0.22% |

Note: Five years is presented to be consistent with the availability of data presented in Tables 1 and 2.

Table 5

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Demographic and Economic Statistics (unaudited)
Last Five Fiscal Years

| Year | Population (1) | Personal Income (2) (thousands of dollars) | Per Capita Personal Income (3) | Median Age (4) | School Enrollment (6) | Unemployment Rate (5) |
|-------------|---------------------------|---|---|---------------------------|--------------------------------------|----------------------------------|
| 2006 | * | * | * | 34.8 | 15,243 | * |
| 2005 | 100,169 | \$ 1,834,195 | * | 34.9 | 15,309 | 6.20% |
| 2004 | 97,800 | \$ 1,542,795 | \$ 25,171 | 34.4 | 15,642 | 6.90% |
| 2003 | 97,600 | \$ 1,539,640 | \$ 23,835 | 34.4 | 15,928 | 6.30% |
| 2002 | 98,400 | \$ 1,552,260 | \$ 22,173 | 34.4 | 16,221 | 6.30% |

Source: (1) - (5) City of Portsmouth Department of Economic Development
(6) Average daily membership submitted to the Virginia Department of Education

* Information not available at this time

Note: Information for years prior to 2002 is not available.

Table 6

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Own Source Revenue (unaudited)
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| Enrollment | | | | | |
| Level | | | | | |
| Elementary | 8,575 | 7,410 | 7,766 | 7,887 | 8,266 |
| Middle | 2,350 | 3,615 | 3,587 | 3,755 | 3,760 |
| High | 4,510 | 4,252 | 4,445 | 4,207 | 4,058 |
| Special Centers | 591 | 802 | 695 | 128 | 178 |
| School Lunch Meals | | | | | |
| Full | 635,614 | 577,682 | 653,222 | 660,768 | 707,094 |
| Reduced | 150,229 | 155,677 | 152,257 | 169,783 | 194,008 |
| Free | <u>1,030,888</u> | <u>1,060,674</u> | <u>1,022,152</u> | <u>1,077,868</u> | <u>1,124,657</u> |
| Total | <u>1,816,731</u> | <u>1,794,033</u> | <u>1,827,631</u> | <u>1,908,419</u> | <u>2,025,759</u> |
| School Breakfast Meals | | | | | |
| Full | 482,397 | 462,233 | 1,827,631 | 411,773 | 392,994 |
| Reduced | 119,640 | 113,906 | 426,531 | 110,177 | 108,858 |
| Free | <u>800,387</u> | <u>794,766</u> | <u>110,777</u> | <u>837,780</u> | <u>891,695</u> |
| Total | <u>1,402,424</u> | <u>1,370,905</u> | <u>2,364,939</u> | <u>1,359,730</u> | <u>1,393,547</u> |
| School Lunch Price | | | | | |
| Full | | | | | |
| Elementary | \$ 0.85 | 0.75 | 0.75 | 0.65 | 0.65 |
| Middle | \$ 0.95 | 0.85 | 0.85 | 0.75 | 0.75 |
| High | \$ 0.95 | 0.85 | 0.85 | 0.75 | 0.75 |
| Adult | \$ 2.00 | 1.75 | 1.75 | 1.50 | 1.50 |
| Reduced | \$ 0.30 | 0.30 | 0.30 | 0.30 | 0.30 |
| Free | \$ - | - | - | - | - |
| School Breakfast Price | | | | | |
| Students | \$ - | - | - | - | - |
| Adults | \$ 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |

Note: Information for years prior to 2002 is not available.

Table 7

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Employees by Class Code (unaudited)
Last Five Fiscal Years

| Employee Count: | 2006 | 2005 | 2004 | 2003 | 2002 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| School board members | 9 | 9 | 9 | 8 | 9 |
| Superintendent | 1 | 1 | 1 | 1 | 1 |
| Assistant superintendents | 2 | 2 | 2 | 2 | 3 |
| Directors | 10 | 8 | 7 | 7 | 7 |
| Coordinators | 12 | 13 | 13 | 13 | 14 |
| Education specialists | 5 | 10 | 11 | 12 | 14 |
| Supervisors | 35 | 28 | 23 | 16 | 15 |
| Principals | 25 | 25 | 25 | 24 | 27 |
| Assistant principals | 31 | 32 | 30 | 30 | 30 |
| Teachers | 1,149 | 1,165 | 1,142 | 1,143 | 1,193 |
| Guidance and other counselors | 47 | 47 | 49 | 43 | 43 |
| Librarians | 25 | 26 | 27 | 29 | 29 |
| Speech therapists | - | 14 | 17 | 20 | 22 |
| School social workers | 8 | 8 | 8 | 10 | 9 |
| Home school liaisons | 10 | 3 | 14 | 12 | 12 |
| Medical staff | 31 | 29 | 29 | 30 | 35 |
| Psychologists | 10 | 9 | 11 | 11 | 10 |
| Secretaries | 160 | 160 | 154 | 156 | 162 |
| Paraprofessionals | 298 | 291 | 322 | 318 | 336 |
| Bus drivers and monitors | 167 | 169 | 168 | 167 | 169 |
| Operations and maintenance staff | 200 | 201 | 209 | 205 | 217 |
| School crossing guards | 39 | 43 | 45 | 42 | 46 |
| In school suspension | 8 | 7 | 6 | 6 | 7 |
| Special police officers | 21 | 16 | 22 | 20 | 22 |
| Print shop personnel | 4 | 4 | 4 | 4 | 4 |
| Cafeteria staff | 161 | 151 | 170 | 174 | 182 |
| Purchasing personnel | 5 | 2 | 2 | - | - |
| Other | - | 23 | 1 | 7 | 8 |
| | 2,473 | 2,496 | 2,521 | 2,510 | 2,626 |

Note: Information for years prior to 2002 is not available.

Table 8

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Teachers - Total Number, Average Age, Average Salary (unaudited)
For the Year Ended June 30, 2006

| | # of Teachers | Average Teacher Age | Average Teacher Salary | Education Level | | | |
|------------|---------------|---------------------|------------------------|-----------------|-----|-----|-----|
| | | | | BA | MA | CAS | PHD |
| Elementary | 628 | 42.5 | \$ 44,048 | 374 | 244 | 8 | 2 |
| Middle | 195 | 44.3 | 44,675 | 134 | 58 | 2 | 1 |
| High | 285 | 45.9 | 45,941 | 185 | 92 | 5 | 3 |
| Other | 28 | 45.8 | 49,934 | 17 | 10 | 1 | 0 |

Note: Information for years prior to 2006 is not available.

Table 9

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Capital Assets Statistics (unaudited)
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Building | | | | | |
| Elementary | 17 | 17 | 17 | 18 | 18 |
| Middle | 4 | 5 | 5 | 5 | 5 |
| High | 3 | 3 | 3 | 3 | 3 |
| Other | 3 | 3 | 3 | 3 | 3 |
| Fleet | | | | | |
| School Buses | 130 | 129 | 143 | 130 | 144 |
| Other | 65 | 63 | 55 | 58 | 57 |
| Athletics | | | | | |
| Football Fields | 2 | 2 | 2 | 2 | 2 |
| Running Tracks | 3 | 3 | 3 | 3 | 3 |
| Baseball/Softball | 3 | 3 | 3 | 3 | 3 |
| Playgrounds | 17 | 17 | 17 | 18 | 18 |

Note: Information for years prior to 2002 is not available.

Table 10

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

School Building Information (unaudited)
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Elementary Schools: | | | | | |
| Brighton (1959) | | | | | |
| Square feet | 33,564 | 33,564 | 33,564 | 33,564 | 33,564 |
| Capacity (Students) | 539 | 539 | 320 | 320 | 320 |
| Enrollment | 660 | 571 | 304 | 319 | 335 |
| Churchland Academy (1986) | | | | | |
| Square feet | 96,000 | 96,000 | 96,000 | 96,000 | 96,000 |
| Capacity (Students) | 914 | 914 | 914 | 914 | 914 |
| Enrollment | 1,033 | 917 | 947 | 979 | 1,062 |
| Churchland Elementary (1958) | | | | | |
| Square feet | 61,612 | 61,612 | 61,612 | 61,612 | 61,612 |
| Capacity (Students) | 634 | 587 | 587 | 587 | 587 |
| Enrollment | 644 | 543 | 578 | 563 | 585 |
| Churchland Primary (1976) | | | | | |
| Square feet | 63,800 | 63,800 | 63,800 | 63,800 | 63,800 |
| Capacity (Students) | 608 | 608 | 608 | 608 | 608 |
| Enrollment | 606 | 530 | 520 | 589 | 557 |
| S.H. Clarke Academy (1957) | | | | | |
| Square feet | 108,200 | 108,200 | 108,200 | 108,200 | 108,200 |
| Capacity (Students) | 1,030 | 1,030 | 1,030 | 1,030 | 1,030 |
| Enrollment | 498 | 517 | 516 | 509 | 523 |
| Douglass Park (2002) | | | | | |
| Square feet | 73,398 | 73,398 | 73,398 | 73,398 | 73,775 |
| Capacity (Students) | 906 | 703 | 703 | 703 | 703 |
| Enrollment | 774 | 668 | 689 | 681 | 576 |
| Highland Biltmore (1961) | | | | | |
| Square feet | 51,613 | 51,613 | 51,613 | 51,613 | 51,613 |
| Capacity (Students) | 492 | 492 | 492 | 492 | 492 |
| Enrollment | * | * | * | * | 355 |
| Hedges Manor (1956) | | | | | |
| Square feet | 47,633 | 47,633 | 47,633 | 47,633 | 47,633 |
| Capacity (Students) | 477 | 454 | 454 | 454 | 454 |
| Enrollment | 485 | 401 | 475 | 481 | 473 |
| James Hurst (1978) | | | | | |
| Square feet | 63,525 | 63,525 | 63,525 | 63,525 | 63,525 |
| Capacity (Students) | 605 | 605 | 605 | 605 | 605 |
| Enrollment | 791 | 622 | 709 | 758 | 751 |
| Lakeview (1967) | | | | | |
| Square feet | 54,349 | 54,349 | 54,349 | 54,349 | 54,349 |
| Capacity (Students) | 572 | 518 | 518 | 518 | 518 |
| Enrollment | 641 | 489 | 544 | 531 | 572 |
| Mt. Hermon (1958) | | | | | |
| Square feet | 47,349 | 47,349 | 47,349 | 47,349 | 47,349 |
| Capacity (Students) | 451 | 451 | 451 | 451 | 451 |
| Enrollment | 252 | 244 | 171 | 189 | 202 |
| Olive Branch (1960) | | | | | |
| Square feet | 30,700 | 30,700 | 30,700 | 30,700 | 30,700 |
| Capacity (Students) | 311 | 311 | 311 | 311 | 311 |
| Enrollment | 428 | 342 | 350 | 367 | 376 |

Table 10

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

School Building Information (unaudited)
Last Five Fiscal Years

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|--|-------------|-------------|-------------|-------------|-------------|
| Elementary Schools: (continued) | | | | | |
| Park View (1957) | | | | | |
| Square feet | 26,548 | 26,548 | 26,548 | 26,548 | 26,548 |
| Capacity (Students) | 302 | 302 | 302 | 302 | 302 |
| Enrollment | 394 | 357 | 344 | 333 | 333 |
| Port Norfolk (1957) | | | | | |
| Square feet | 28,700 | 28,700 | 28,700 | 28,700 | 28,700 |
| Capacity (Students) | 273 | 273 | 273 | 273 | 273 |
| Enrollment | * | * | * | * | 250 |
| Simonsdale (1946) | | | | | |
| Square feet | 33,300 | 33,300 | 33,300 | 33,300 | 33,300 |
| Capacity (Students) | 317 | 317 | 317 | 317 | 317 |
| Enrollment | 286 | 278 | 281 | 303 | 295 |
| Emily Spong (1957) | | | | | |
| Square feet | 30,206 | 30,206 | 30,206 | 30,206 | 30,206 |
| Capacity (Students) | 288 | 288 | 288 | 288 | 288 |
| Enrollment | 179 | 186 | 189 | 207 | 218 |
| John Tyler (2002) | | | | | |
| Square feet | 106,749 | 106,749 | 106,749 | 106,749 | 106,749 |
| Capacity (Students) | 597 | 546 | 546 | 546 | 367 |
| Enrollment | 689 | 628 | 604 | 568 | 319 |
| Westhaven (1954) | | | | | |
| Square feet | 64,671 | 64,671 | 64,671 | 64,671 | 64,667 |
| Capacity (Students) | 797 | 620 | 620 | 620 | 620 |
| Enrollment | 646 | 547 | 545 | 510 | 484 |
| Middle Schools: | | | | | |
| Churchland (1970) | | | | | |
| Square feet | 136,937 | 136,937 | 136,937 | 136,937 | 136,937 |
| Capacity (Students) | 1,141 | 1,141 | 1,141 | 1,141 | 1,141 |
| Enrollment | 967 | 1,136 | 1,095 | 1,195 | 1,105 |
| Cradock (1954) | | | | | |
| Square feet | 103,420 | 103,420 | 103,420 | 103,420 | 103,420 |
| Capacity (Students) | 885 | 885 | 885 | 885 | 885 |
| Enrollment | 719 | 663 | 581 | 624 | 706 |
| Hunt/Mapp (1955) | | | | | |
| Square feet | 235,946 | 235,946 | 235,946 | 235,946 | 235,946 |
| Capacity (Students) | - | 1,966 | 1,966 | 1,966 | 1,966 |
| Enrollment | * | 1,097 | 1,172 | 1,159 | 1,117 |
| William E. Waters (1966) | | | | | |
| Square feet | 104,601 | 104,601 | 104,601 | 104,601 | 104,601 |
| Capacity (Students) | 872 | 872 | 872 | 872 | 872 |
| Enrollment | 664 | 719 | 739 | 777 | 832 |
| High Schools: | | | | | |
| Churchland (1992) | | | | | |
| Square feet | 262,152 | 262,152 | 262,152 | 262,152 | 262,152 |
| Capacity (Students) | 1,871 | 1,871 | 1,871 | 1,871 | 1,871 |
| Enrollment | 1,859 | 1,745 | 1,813 | 1,721 | 1,553 |
| I. C. Norcom (1998) | | | | | |
| Square feet | 280,000 | 280,000 | 280,000 | 280,000 | 280,000 |
| Capacity (Students) | 2,006 | 2,006 | 2,006 | 2,006 | 2,006 |
| Enrollment | 1,319 | 1,221 | 1,321 | 1,267 | 1,237 |

Table 10

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

School Building Information (unaudited)
Last Five Fiscal Years

| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Woodrow Wilson (1971) | | | | | |
| Square feet | 261,655 | 261,655 | 261,655 | 261,655 | 261,655 |
| Capacity (Students) | 1,869 | 1,869 | 1,869 | 1,869 | 1,869 |
| Enrollment | 1,332 | 1,286 | 1,311 | 1,219 | 1,268 |
| Centers - Excel Campus | | | | | |
| Enrollment | 80 | 141 | 140 | 128 | 178 |

* School was closed.

+ Information not available at this time.

Note: Information for years prior to 2002 is not available.

Table 11

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Principal Employers (unaudited)
Prior Year

| Employer | 2005 | |
|---------------------------------------|------------------|--|
| | Employees | Percentage of Total City Employment |
| Norfolk Naval Shipyard | 7,600 | 16.85% |
| Naval Medical Center | 5,463 | 12.11% |
| City of Portsmouth | 2,542 | 5.64% |
| Portsmouth Public Schools | 2,500 | 5.54% |
| Maryview Medical Center, Bon Secours | 2,200 | 4.88% |
| US Fifth District Coast Guard Command | 1,500 | 3.33% |
| Alternative Behavioral Services | 800 | 1.77% |
| Southeastern Public Service Authority | 473 | 1.05% |
| Gwaltney of Smithfield | 440 | 0.98% |
| Earl Industries LLC | 414 | 0.92% |
| CDI Marine Co. Inc. | 290 | 0.64% |
| WAVY-TV | 187 | 0.41% |
| Renaissance Portsmouth Hotel | 161 | 0.36% |
| John E. Hall Electrical Construction | 130 | 0.29% |
| Lindab, Inc. | 115 | 0.25% |
| Total | <u>24,815</u> | <u>55.01%</u> |
| Civilian Labor Force | 45,108 | |

* 2006 Data unavailable at this time.

Note: Information for current year and nine years ago is not available.

Source: City of Portsmouth Department of Economic Development

Table 12

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Operating Statistics (unaudited)
Last Five Fiscal Years

| Year | Expenditures | School Enrollment | Cost per Pupil | Percentage Change | Teaching Staff | Pupil/Teacher Ratio |
|------|--------------|-------------------|----------------|-------------------|----------------|---------------------|
| 2006 | 144,216,707 | 15,243 | \$ 9,461 | 6.00% | 1149 | 13.27 |
| 2005 | 136,647,163 | 15,309 | 8,926 | 8.56% | 1165 | 13.14 |
| 2004 | 128,606,981 | 15,642 | 8,222 | 7.58% | 1142 | 13.70 |
| 2003 | 121,734,640 | 15,928 | 7,643 | 2.96% | 1143 | 13.94 |
| 2002 | 120,408,689 | 16,221 | 7,423 | * | 1193 | 13.60 |

* Information not available at this time

Note: Expenditures only include General and Special Revenue Funds.
Information for years prior to 2002 is not available.

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COMPLIANCE SECTION



***Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

Members of the School Board
City of Portsmouth, Virginia School Board

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board (the School Board), a component unit of the City of Portsmouth, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the School Board's basic financial statements and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Portsmouth, Virginia School Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portsmouth, Virginia School Board's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we have reported to management of the School Board in a separate letter dated October 19, 2006.

This report is intended solely for the information and use of City of Portsmouth, Virginia School Board, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekant & Holland, A. Z. P.

Virginia Beach, Virginia
October 19, 2006

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